Australian Health Insurance Reform: Challenges and Opportunities

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via Actuaries Institute's Blog

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Health actuaries have been quite busy over the past few months trying to make sense of the various reforms that were introduced by the Department of Health to address the challenges of affordability and complexity of New Private Health Insurance (PHI) in Australia. Some of these reforms *(although not yet finalized)* will come into effect on April 1, 2019. The new reform measures present health insurers with both a challenge and an opportunity:

How to minimize the impact on existing business?

How to maximize the opportunity to grow the business?

The challenge

Most of the reform measures introduced will be mandatory and may have significant consequences to both health insurers and their policyholders. By understanding how these measures are going to be impacting their policyholders and their overall business, health insurers will be able to better prepare for the change. Some of the reform measures that can be significant for an insurer are:

Introduction of Gold/Silver/Bronze/Basic product categories, Clinical Categories and Removal of Restrictions

In his article, ***"Health Insurance: Metallic paint, Game theory and Product categorization"***, Barry Leung presents a detailed description of the product categorization and the implications for health insurers. For consumers, these reform measures provide greater clarity around what clinical services will be covered in hospital policies. They also provide a clear mechanism for consumers to compare products across the industry.

The removal of restrictions from Bronze and Silver categories will mean that consumers will no longer be able to claim benefits from their insurer for being treated as a private patient in public hospitals when the clinical category is not covered under the policy. Restrictions will be allowed on Basic products only except for hospital psychiatric services and rehabilitation, which can be restricted under Bronze and Silver. Although some larger insurers have already moved away from offering restrictions, many smaller not-for-profit funds are continuing to offer restrictions on their products.

So, what are some of the challenges that face health insurers?

Existing products may no longer comply with the new legislation and may require extensive changes. Any new addition of services will be costly for the insurer while removal of any services *(including restrictions)* may trigger member lapses.

Existing *"Bronze Hospital"* and *"Silver Hospital"* products may no longer be classified as Bronze or Silver. Even when no changes are made to the services covered the change of names from Silver to Bronze plus or from Bronze to Basic plus may be perceived as detrimental by policyholders.

If the existing products are classified as a plus product then there might be a risk that policyholders do not value the additional services of the plus product and look for a cheaper minimum Basic, Bronze or Silver product.

Changing coverage for some natural therapies

Health insurers are mandated to remove natural therapies (including but not limited to yoga, pilates and tai chi) from their general product offerings. Removing these services will reduce the cost of PHI, however, it will be a detrimental change for policyholders that utilize those services.

It should be noted that any savings generated from the removal of these services should be considered in light of policyholder reaction to this change, for example, the potential increase in lapse rates.

Improved access to travel and accommodation for regional and rural consumers

Travel and accommodation benefits are currently only offered in top-level general treatment products. From 1 April 2019, insurers will be able to offer these benefits under hospital products providing greater access to private care for regional and rural consumers. Some of the challenges that insurers (especially those regional insurers that cater for local consumers) may face include:

> Regional specific insurers may currently be able to offer cheaper hospital products due to their policyholders having limited access to private services locally. Adding travel and accommodation benefits under hospital cover can be quite costly for these insurers where their policyholders are concentrated in one specific area. On the contrary, larger insurers may be able to spread the cost across Australia. Although the addition of these services is not mandatory, it may be necessary for regional insurers to remain competitive. At the same time, the addition of these services will mean that prices will need to go up making the prices less competitive.
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> Introduction of these services under hospital covers may mean that policyholders who once purchased general treatment cover for the sole purpose of accessing these services no longer need it and want to lapse or downgrade their general treatment cover.

The opportunity

The government has introduced a couple of other measures as part of the reforms that specifically address the challenges of affordability and declining PHI participation in Australia. Although they are voluntary measures, the combination of these together with the categorization of Gold, Silver, Bronze and Basic present an excellent opportunity for health insurers to revise their overall business strategy for growth.

Increasing voluntary maximum excess levels

The maximum allowable excess on a hospital policy is set at $500 for singles and $1000 for couples or families. Currently, 80% of the hospital policies have some form of excess[1]. As the cost of health insurance policies is getting dearer consumers are looking for options to reduce their premiums through downgrading. Increasing the maximum to $750 for singles and $1500 for couples and families will mean that from April 1, 2019, consumers will be able to further lower their premiums by purchasing a higher excess product.

For an insurer, healthier policyholders downgrading to products with higher excesses will mean reduced revenue while no changes to claims cost. At the same time, if the insurer does not offer higher excess products when the competitors do at a lower price then, that might cause loss of sales or healthier policyholders moving to competitors.

Discounts for 18 to 29-year olds

Health Insurance in Australia is currently community rated, meaning insurers cannot risk rate by age, sex or health status. As a result, younger and healthier members of the population are seeing less and less value in PHI and are moving away from it altogether.

To encourage young people to take up private health cover, the government has legislated voluntary discounts. From 1 April 2019 health insurers will be able to offer discounts of up to 10% for policyholders between the ages 18 and 29. This means someone who takes out health insurance policy at the age of 25 will be able to maintain the 10% discount until they turn 41. The discount will be phased out after the age of 41.

The financial impact can vary significantly from insurer to insurer depending on their portfolio mix, target profitability and the level of access to an open market. An insurer with predominantly older policyholders will be able to offer the discount at a lower cost compared to a specialist corporate fund that’s target market is young corporate employees. An insurer operating for profit will be able to accommodate the cost easier than a not for profit insurer with lower target net margin. Accessing the additional sales required to offset the cost of the discount might be easier for a large and open health insurer compared to a small insurer with restricted membership.

If offering a discount on existing products is costly, an insurer may instead consider introducing new products with discounts. This may involve closing some of the currently existing products. The advantages of introducing new products include:

- Increased sales due to discounted products for 18 – 29-year olds;
- Correctly priced products and therefore minimal financial impact on the existing business;
- No higher rate increases to existing policyholders; and
- An opportunity to upgrade existing 18-29-year-old policyholders to new discounted products.

The PHI reform presents a lot of uncertainty to health insurers and actuaries are best placed to assist them with their ability to quantify the impact through various scenario modeling. It is also an opportunity for actuarial graduates to be involved in health insurance as it presents unique opportunities that are not available every day.

About the Author:

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Reference:

[1] Private health insurance reforms: Increasing voluntary maximum excess levels, Published: July 16, 2018.
| **http://www.health.gov.au/internet/main/publishing.nsf/Content/private-health-insurance-reforms-fact-sheet-increasing-maximum-excess-levels**

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